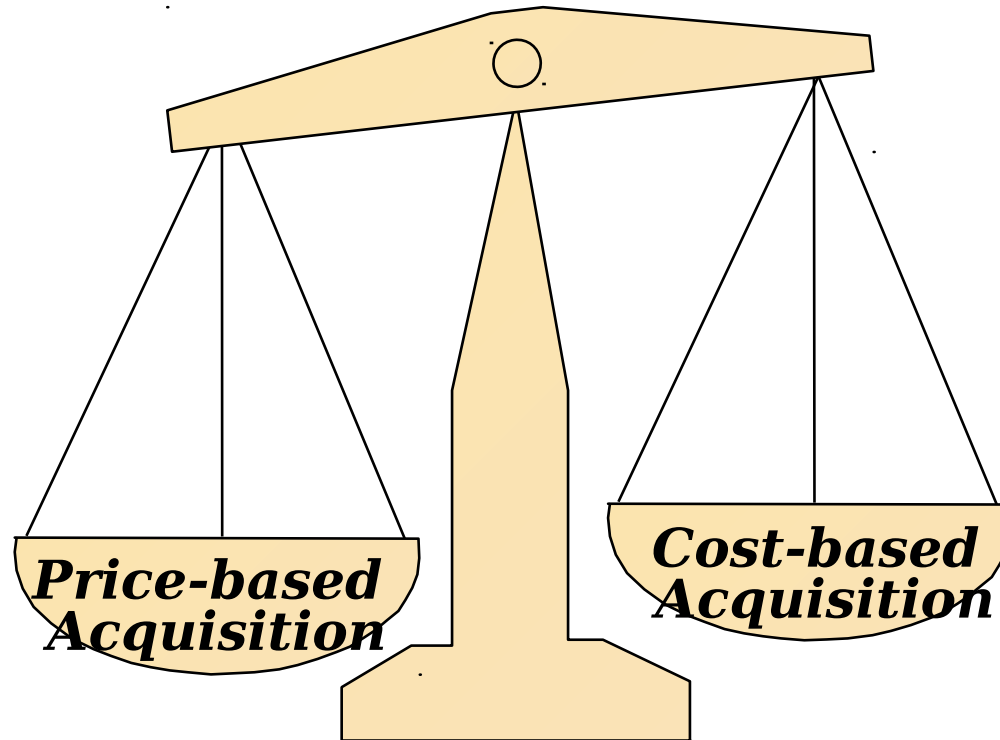


Price-based Acquisition



PBA Study Overview August 1999

Dave Ricci, DCMC HQ, 703.767.3376



Price-based Acquisition

Agenda

- **Background**
- **Selected Recommendations**
 - **Acquisition Strategies**
 - **Preadward**
 - **Postaward**
- **Summary**



Price-based Acquisition

PBA Objectives

- **Access to commercial technology**
- ▢ **Reduce government infrastructure**
- ▢ **Better contract prices**
 - **Civil military integration**
While maintaining the public trust
 - ▢ **Increased competition**

Room for both cost-based & price-based solutions
CBA-PBA Continuum



Price-based Acquisition

Definition of Price-based Acquisition

“ Price-based acquisition is a way for DoD to buy goods and services that does not rely primarily on suppliers’ providing actual or estimated cost data. It does not preclude DoD and suppliers from mutually agreeing to use limited cost data to establish price reasonableness, cost realism, a financing agreement, or other contract terms and conditions. A price-based acquisition must be firm-fixed-price (with or without Economic Price Adjustment) or fixed-price with non-cost



Price-based Acquisition

Where We've Been

- Intensive effort - ESG and 3 focus groups with 50 people (field and staff)
 - Industry Roundtable (commercial)
 - MIT (Lean Aerospace Initiative)
 - ▢ Crane Research Center
 - ▢ Litton/TASC Report
 - ▢ Defense Science Board
- ▢ Distilled information from diverse perspectives to reach balanced recommendations

*PBA Study chartered by
USD(A&T) in October 1998*



Price-based Acquisition

Where We're Going (Schedule of Events)

- 4/2** Initial draft report released for internal PBA team review
- 5/15** ESG comments due on draft report
- 6/15** Disposition comments
- 7/1** Distribute dispositioned comments to ESG
- 7/20** Conduct ESG to discuss unresolved issues
- 10/25-27** FGL meet to go over final report
- 11/15** Official draft report released (estimated)



Price-based Acquisition



Industry Roundtable Insights

- Trust but verify
- Market/make knowledge is a must
- Team approach-early stakeholder involvement
- Supplier profit percent not an issue, cost reduction is
 - Achieve by incentivizing suppliers
 - Cost data is often required
- Displacing an incumbent supplier requires a 25 to 40% improvement
- Cost contracts, legal action, supplier financing, and funding of R&D efforts are rare



Price-based Acquisition

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Price-based Acquisition

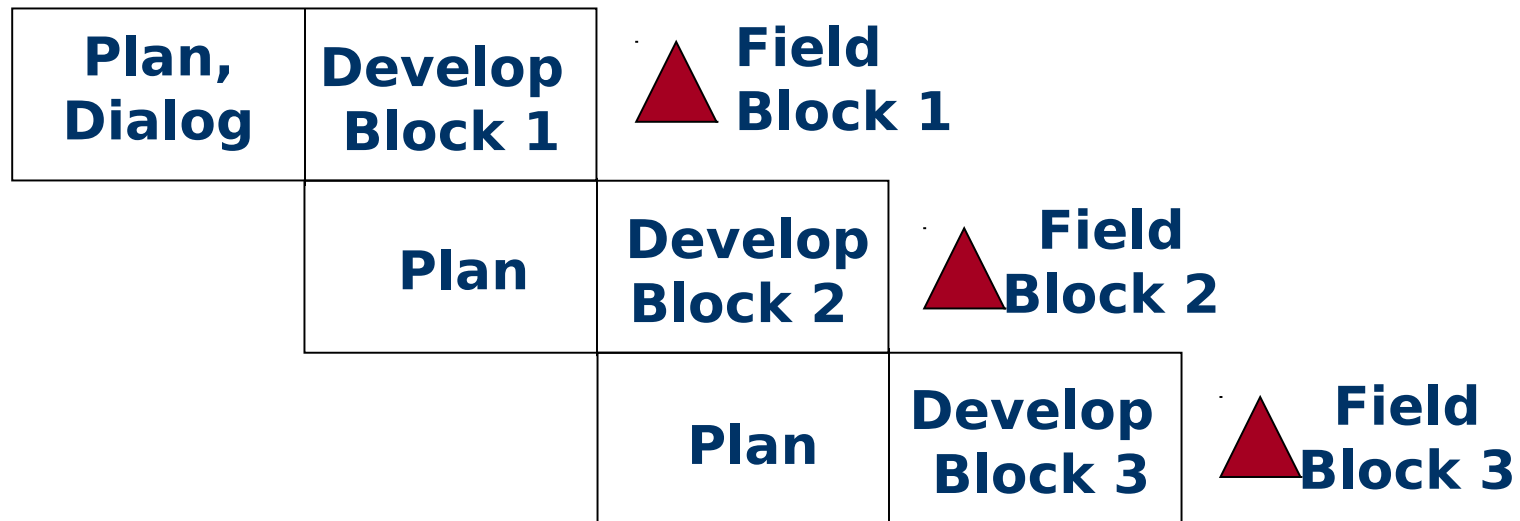
Evolutionary Process - Concept

- **Divide requirement into discrete, incremental modules**
- **Each successive module builds on all previous modules until full requirement is satisfied**
- **“Bite-size” modules allow FFP for development and production**
- **Exit criteria, module-to-module**
 - **Sufficient risk reduction and planning to allow FFP for next module**
 - **Affordability**



Price-based Acquisition

Evolutionary Process Generic Aircraft Acquisition (EMD/Production)



Partial Reqmt { **Block 1 = New airframe, current engines, current avionics**

Block 2 = New airframe, new engines, current avionics

Block 3 = New airframe, new engines, new avionics

Full Reqmt }



Price-based Acquisition

Incremental Development - Concept

- **Divide development into discrete phases with loose milestones**
- **Fixed price, one phase at a time**
- **Exit criteria phase-to-phase**
 - **Sufficient risk reduction and planning to allow FFP for next phase**
- **Affordability**



Price-based Acquisition

Incremental Development Generic Aircraft Acquisition

**Contractor
X**

Requirements

Design

Build

Test

Produce

**Individual
FFP phases.
Exit criteria
includes
sufficient risk
reduction to
fix price next
phase**

**Contractor
Y
(Optional)**

Requirements

Design

Build

Test

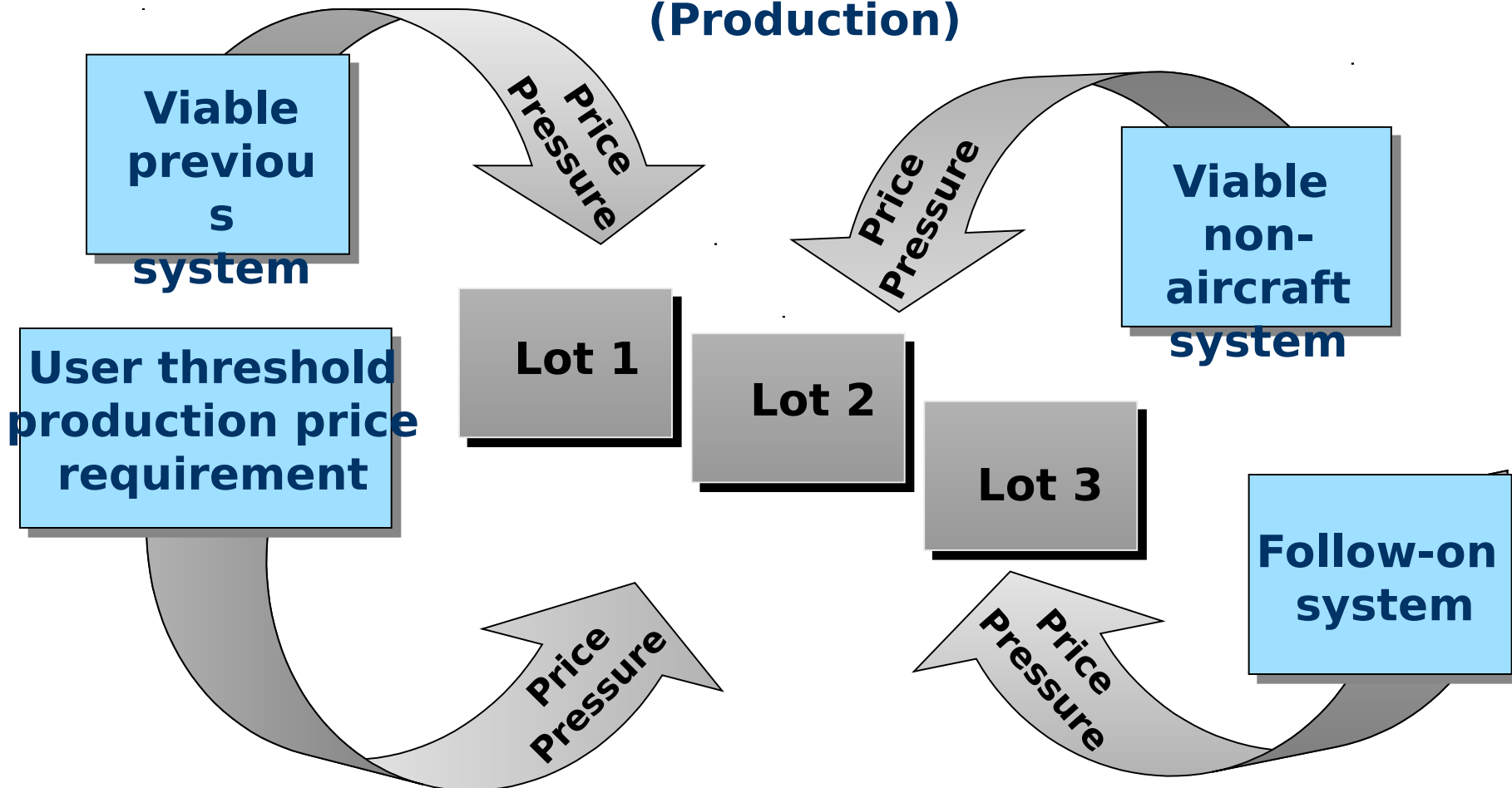
Produce

**Desirable
to continue
competition
until fixed
price
negotiated**



Price-based Acquisition

Dissimilar Competition Generic Aircraft Acquisition (Production)





Price-based Acquisition

Two-phase Source Selection Strategy

Recommendation:

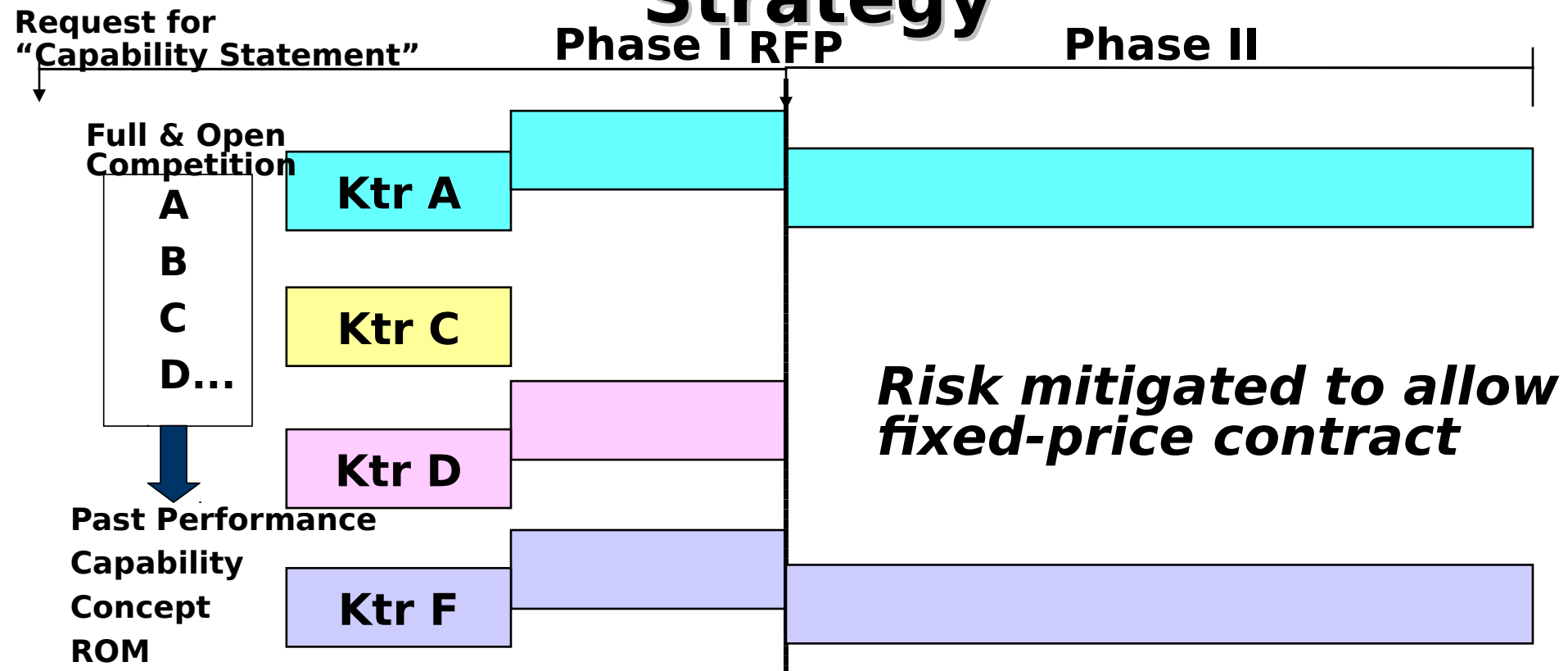
DUSD(AR) pursue the requisite statutory language for the two-phase source selection strategy

- **Basic Concept: offerors win the right to negotiate with the government/extensive dialogue between buyer and seller**
 - **Buyer explores availability of technology and alters requirement as new information becomes available**
 - ▮ **Seller gains knowledge of and has opportunity to contribute to requirement definition**
 - ▮ **Both negotiate cost/schedule/performance trades to reach firm commitment (risk mitigation)**



Price-based Acquisition

Two-phase Source Selection Strategy



- Requirements refinement & planning with limited sources
- May/may not fund (i.e., award contract)
- No J&A required
- Budget quality estimate

*potential suppliers
treated impartially, but
not necessarily the
same*



Price-based Acquisition

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Price-based Acquisition

DoD Market Research Center of Excellence (COE)

Recommendation:

Create a DoD Market Research COE

- Shrinking number of prime defense contractors that get a large percentage of DoD business sole source (yet often compete internationally)
- DoD no longer drives technological advances and must rapidly insert commercial technology to keep pace

Air Force already working this as LB 9



Price-based Acquisition

Past Performance

Recommendation:

Modify DFARS to elevate importance of past performance to be no lower than the highest rank of the other factors in every source selection

- **DoD purchases (based upon sample of 1259 acquisitions over 30 day period)**
 - **Virtually all considered past performance**
 - ▣ **70% gave past performance low weighting**
 - ▣ **Only 5% considered past performance equal to or more important than other factors**

This rec'd will be modified



Price-based Acquisition

Truth-in-Negotiation Act (TINA)

Recommendation:

Make the TINA waiver approval level redelegated to the Services determine the appropriate level (business clearance approval authority?).

- **Currently HCA is a 3-Star or above for all Services**
- **Consistent with other recent streamlining initiatives**
 - **Facilitates PBA goals by making the process less cumbersome while maintaining management control**

Will also recommend increase to S



Price-based Acquisition

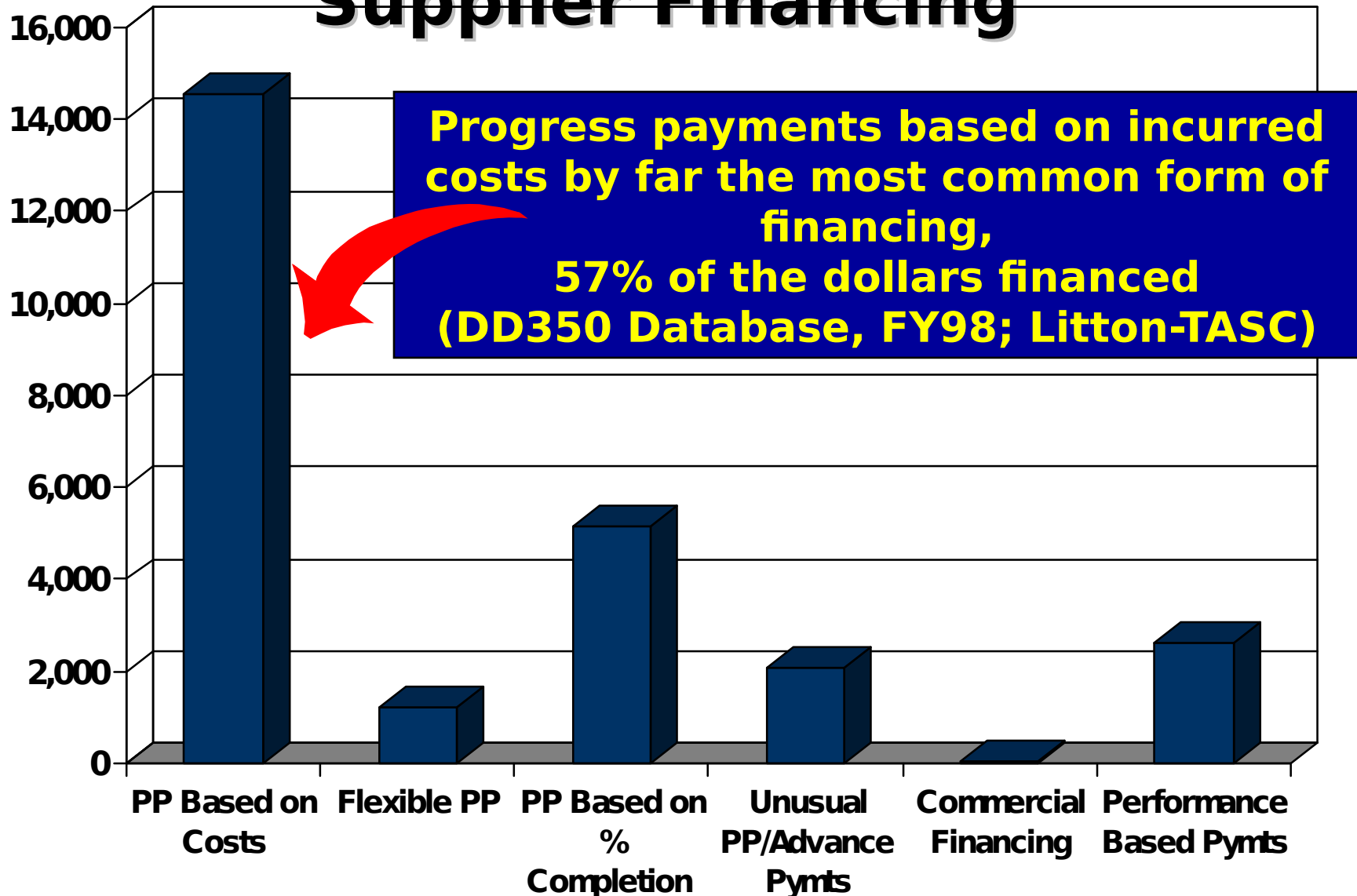
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Price-based Acquisition

Supplier Financing





Price-based Acquisition

Supplier Financing

Recommendation:

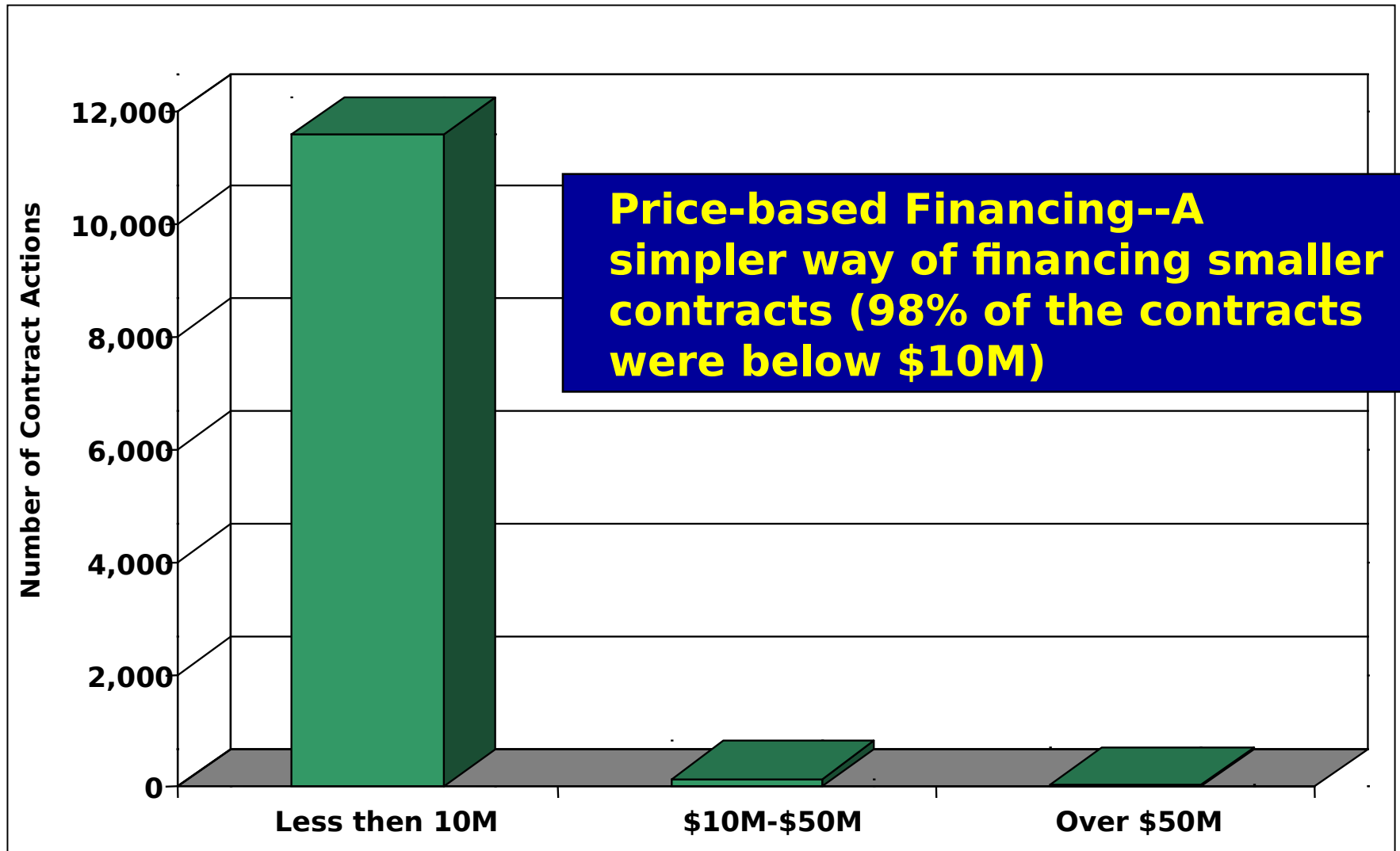
Increase the use of performance-based payments for larger contracts, but include the ability to make initial payments

- **Performance-based payments are the preferred form of financing:**
 - ▮ **Used in 1% of the FY98 contract actions, and**
 - ▮ **Accounted for 10% of the FY98 dollars financed**



Price-based Acquisition

Supplier Financing





Price-based Acquisition

Supplier Financing

Recommendation:

Create a new form of financing, price-based financing, for use on low dollar value contracts (those priced at \$10 million or less) and larger follow-on routine purchases

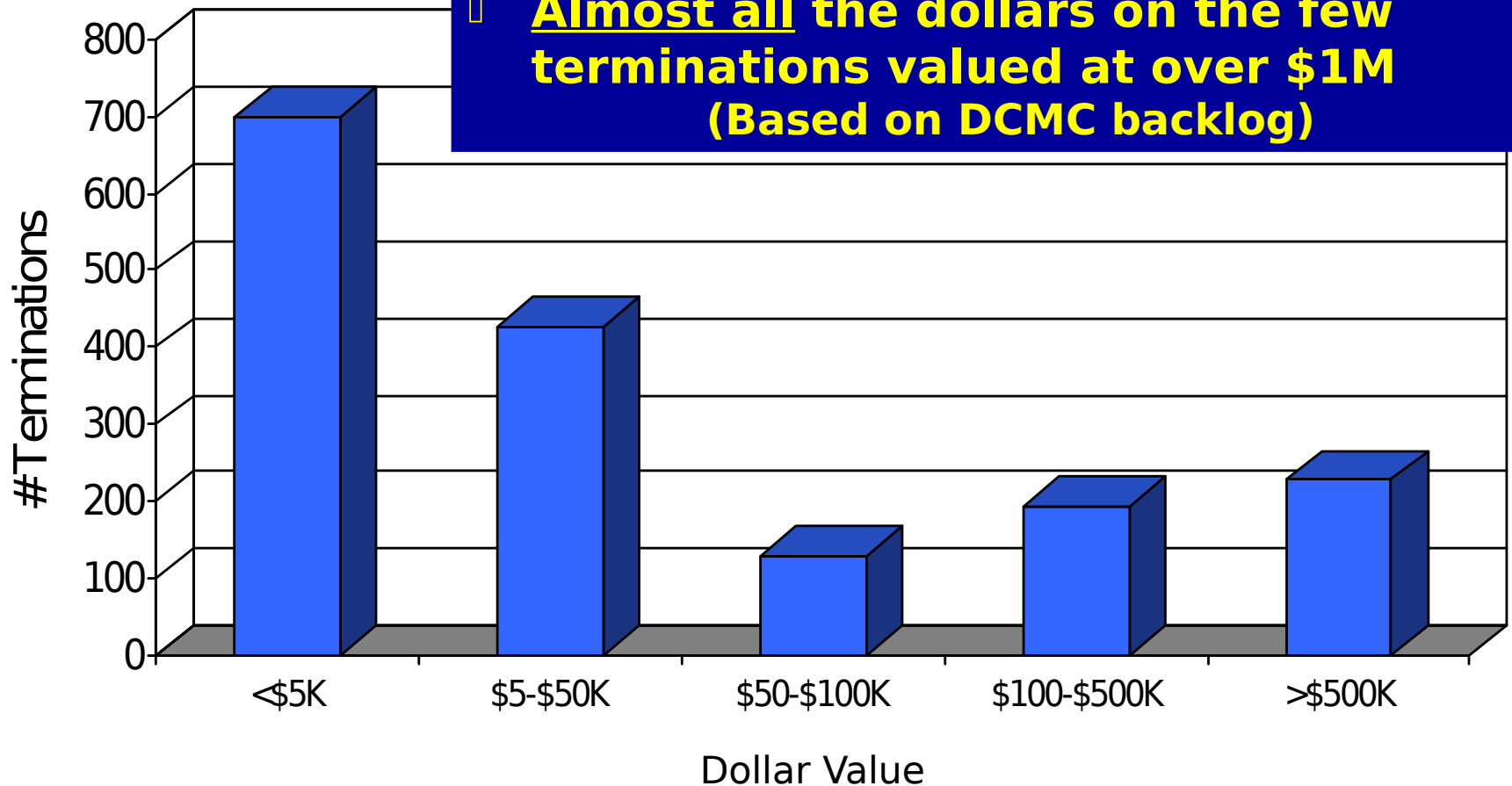
- **Based on prospective expenditure promises**
- **Periodic performance reviews (not incurred cost audits)**
- **Availability contingent upon; *Up to 70% of contract price***
 - **Adequate financial condition**
 - **Past performance**



Price-based Acquisition

Termination for Convenience

- **75% are less than \$100,000**
- ▣ **Almost all the dollars on the few terminations valued at over \$1M**
(Based on DCMC backlog)





Price-based Acquisition

Termination for Convenience

Recommendation:

Create a new termination clause, similar to the termination clause used in contracts for commercial items (52.212-4), for use in smaller contracts and partial terminations of larger contracts, i.e., those valued at less than \$100K

- **Based upon % of the work completed-- regardless of costs incurred**
- **Larger contracts will contain this new clause and existing clause for larger terminations-- application depends upon amount of settlement proposal**



Price-based Acquisition

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Price-based Acquisition

Much Can Be Done Now

Recommendations	Internal Procedure	Regulatory	Statutory
Evolutionary	✓+		
Incremental Development	✓+		
Dissimilar	✓+		
Program Progress	✓+		
Waivers and Deviations	✓+		
Claims	✓+		
Market Research COE	✓+		
Business System Reviews	✓+		
Training	✓+		
FFP R&D Waiver Deletion	✓	✓+	
Past Performance	✓+	✓	
Contract Types	✓+	✓	
Pricing Methods	✓+	✓	

+ = Majority of effort
 ✓ = Requires change
 ✓ = DFARS change
 ✓ = FAR change



Price-based Acquisition

Much Can Be Done Now

Recommendations	Internal Procedure	Regulatory	Statutory	
Letter Contracts / UCAs	✓+	✓		+ = Majority of effort ✓ = Requires change ✓ = DFARS change ✓ = FAR change
EPA	✓+	✓		
Preference for PBA	✓+	✓		
Value-based	✓+	✓		
Value Engineering	✓+	✓		
Contract Modification	✓+	✓		
GFP	✓+	✓		
PBA in Acquisition Plan	✓+	✓		
T for C	✓	✓ +		
Financing	✓+	✓	✓	
Source Selection Strategies	✓	✓	✓+	
Cancellation Charges	✓	✓	✓+	
Wage Determinations	✓	✓	✓+	
TINA	✓	✓	✓+	